



Internal Revenue Service Criminal Investigation

Tax Fraud Alert

Healthcare Fraud

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Overview

IRS Keyword: Fraud

Fiscal Year 2004
[Text Only](#) .htm

According to the Centers for Medicare & Medicaid Services, national healthcare expenditures topped \$1.3 trillion in 2000. Although the exact amount of healthcare fraud is difficult to determine, estimates range from three to ten percent, thus translating into staggering amounts of money lost to fraud.

The Department of Health and Human Services, Office of Inspector General reported in testimony to Congress that \$13.5 billion of Medicare fee-for-service claim payments, which are only a portion of Medicare payments, may have been a result of inadvertent error or outright fraud in fiscal year 1999. This figure does not consider the amount of fraud perpetrated against private insurance companies.

Criminal Investigation investigates healthcare fraud perpetrated against the federal and state governments, as well as private insurance companies. In these investigations, CI follows the money trail and considers both tax and money laundering perspectives. Criminal tax investigations are initiated when income generated from healthcare fraud is not correctly reported on tax returns, or when there is an overstatement of expenses on tax returns. Criminal Investigation investigates money laundering when either illegally obtained funds from healthcare fraud are used to purchase assets or when the perpetrators of the schemes devise elaborate methods to conceal their fraudulent proceeds. Money laundering occurs in a wide range of fraudulent healthcare schemes such as false claims, kickbacks, or staged accidents.

Typical healthcare fraud investigations are lengthy, labor intensive, and involve complex issues. To assist in combating healthcare fraud, CI participates in DOJ-sponsored, multi-agency task forces and works closely with several state agencies. These task forces capitalize on the strength and expertise of the participating agencies and have proven effective in dealing with healthcare fraud.

Criminal Investigation's participation enhances multi-agency healthcare fraud investigations by documenting that the perpetrators of these schemes financially benefited from their fraudulent activities. Currently, CI is involved in the following areas of healthcare fraud: false billings, mental health, nursing home fraud, chiropractic fraud, durable medical equipment fraud, staged accidents, pharmaceutical diversion, and patient referral (kickbacks) schemes.

Criminal Investigation keeps apprised of healthcare industry and fraud issues through its participation in the National Health Care Anti-Fraud Association. Criminal Investigation has noticed a trend of specialized criminal organizations, such as Russian organized crime syndicates, being involved in healthcare fraud schemes that are defrauding millions of dollars from the government and private insurance carriers.

Statistical Data

How to Interpret Criminal Investigation Data

Since actions on a specific investigation may cross fiscal years, the data shown in cases initiated may not always represent the same universe of cases shown in other actions within the same fiscal year.

Enforcement statistics on investigations initiated, prosecutions recommended, indictments, convictions and months to serve in prison.

	FY 2004	FY 2003	FY 2002
Criminal Investigations Initiated	119	103	81
Prosecution Recommendations	102	59	56
Indictments/Informations	97	47	76
Sentenced	42	45	118
Incarceration * Rate	90.5%	77.8%	83.1%
Average Months to Serve	32	27	27

*Incarceration may include prison time, home confinement, electronic monitoring, or a combination thereof.

Examples of Healthcare Fraud Investigations

The following examples of healthcare fraud investigations are excerpts from public record documents on file in the court records in the judicial district in which the cases were prosecuted.

Administrator of Internet Pharmacy Scheme Sentenced

On September 10, 2004, in San Diego, CA, Odette Pidermann, administrator of World Express Rx, an on-line pharmacy, was sentenced to 18 months in prison and ordered to pay a fine of \$4,000 and ordered to forfeit \$55,000 from four bank accounts. In addition, Pidermann was ordered to cooperate with the IRS in paying back taxes. Pidermann had previously pleaded guilty to conspiring to sell counterfeit pharmaceuticals, mail fraud, and smuggling pharmaceuticals. World Express Rx had a website by which customers could order prescription drugs without having a prior prescription. Over the life of World Express Rx, the scheme grossed just under \$7 million. Pidermann did not take a regular salary; however, funds were simply transferred to her bank accounts as needed to pay personal expenses.

Doctor Sentenced to 15 Months in Prison in Tax Case

On September 9, 2004, in Detroit, MI, Jason Lynn Hollady was sentenced to 15 months in prison to be followed by one year of supervised release and ordered to pay all back taxes and a fine of \$25,000. According to court documents, Hollady deliberately diverted cash payments and checks from his business, Durand Clinic, P.C., and deposited the monies into his personal credit card account or into a personal investment account. These actions resulted in approximately \$280,000 not to be declared as income on Hollady's corporate or personal income tax returns for the tax years 1996 and 1997.

Man Gets Prison Term for Money Laundering, Fraud

On May 10, 2004, in San Diego, CA, Stephen Bryan Gossman was sentenced to 46 months in prison, followed by three years supervised release, ordered to pay \$116,282 in restitution to Medi-Cal and fined \$315,000. Grossman was convicted on seven counts of healthcare fraud and ten counts of money laundering. Grossman defrauded Medi-Cal by falsifying applications and unlawfully concealing over \$330,000 of his grandmother's assets. Through these fraudulent applications, Grossman maximized his inheritance by convincing Medi-Cal to pay for his grandmother's long-term care for over four years. Grossman laundered the unlawfully concealed assets through 80 structured deposits into multiple bank accounts over several years.

Healthcare Fraud Conspirator Sentenced

On April 28, 2004, in Memphis, TN, Steve Threet was sentenced to 21 months in prison, followed by three years supervised release. Threet provided substantial assistance in the investigation of Diane Nadolni as well as numerous other healthcare and drug related investigations. Threet previously pled guilty to one count of Health Care Fraud and one count of Money Laundering. Beginning in January 1997 and continuing through at least March 1998, Threet, President of Southeast Clinical Management Services was involved in a health care fraud scheme whereby fraudulent claims were submitted to Medicare and Medicaid totaling in excess of \$4,972,251.09 for psychological services. Threet's business, Southeast Clinical Management Services, was designed to operate and manage the practice of licensed clinical psychologists. Threet instructed individuals to submit claims that reflected services performed by Dr. Jack E. Schaff, knowing full well that the claims were not performed or supervised by Dr. Schaff, and knowing full well that some of the claims were for services not rendered by licensed health care providers.

Medical Facility Operator Sentenced to 37 Months for Tax Evasion and Medicare Kickback Schemes

On March 16, 2004, in New York, NY, Jay Katz was sentenced to 37 months in prison, followed by three years supervised release on charges of conspiring to pay thousands of dollars in illegal kickbacks in exchange for referral of Medicare-insured patients to various MRI facilities that Katz controlled, and evading approximately \$3.2 million in taxes owed to the Internal Revenue Service from 1996 through 1998. Katz caused the MRI facilities that he controlled to pay millions of dollars in "billing" and "management fees" to various Katz-owned shell corporations. The tax returns that Katz filed on behalf of the Katz-owned shell corporations failed to report income and also reported personal expenses as business expenses and as a cost of goods sold.

Medical Schemer Sentenced

On January 26, 2004, in Greenville, TN, Craig Robert Lodge was sentenced to 34 months in prison pursuant to his April 28, 2003 guilty plea to a seven-count Information that charged Lodge with health care fraud, wire fraud, credit card fraud, identity theft, money laundering, and obtaining drugs by fraud. Lodge submitted more than \$2 million in false Medicare claims and received more than \$1 million in payments. His wife, Mailee Lodge, was convicted after a trial on the same charges. She is scheduled to be sentenced on March 8, 2004.

Attorney/CPA Sentenced in Tax Evasion

On January 21, 2004, in San Francisco, CA, Wade Shang was sentenced to two years in prison after being convicted for income tax evasion. Evidence presented at trial showed that Shang, a personal injury attorney, received checks from insurance companies to settle his client's claims and had his client's endorse them to him for deposit to his attorney-client trust account. Shang then had the clients endorse another check, one Shang had written to them on his attorney-client trust account. This check was for an amount in excess of the amount of the client's portion of the settlement funds. Shang cashed this check and paid the client his or her share of the settlement proceeds in cash, but in an amount less than that described on the client's check, thereby creating the false impression that Shang had greater business expenses than he really incurred. When Shang learned he was under investigation by CI, he held a holiday dinner party to which he invited former clients to whom he had paid cash settlements and who he had not seen in years. He also visited some clients at their home or place of employment to determine if the IRS had questioned them. He gave holiday gift certificates to one such client and to another he gave \$800.

Executive Sentenced to 20 Years, Ordered to Pay \$92 M in Restitution in Investment Fraud and Money Laundering Case

On October 31, 2003, in Cleveland, OH, J. Richard Jamieson was sentenced to 20 years imprisonment, ordered to serve a three-year term of supervised release, pay \$92,125,491 in restitution, and pay a

money laundering, concealment money laundering, spending money laundering, conspiracy to commit money laundering, and conspiracy to commit mail fraud. On January 23, 2002 J. Richard Jamieson was indicted along with 16 other individuals in connection with a scheme to defraud life insurance companies and investors throughout the United States. The Indictment charged that the defendants, including Jamieson, conspired to defraud approximately 2,850 investors in viatical settlements of approximately \$105,000,000. Jamieson was also charged with laundering his profits from the fraud scheme using domestic and foreign trust entities. As a result of this trial and subsequent conviction, there is a special verdict personal judgment against Jamieson in the amount of \$28,243,980 that was rendered by the jury in his trial and relates to the funds involved in the money-laundering scheme. Jamieson must also forfeit all the assets in over 50 domestic and foreign companies, corporations, partnerships, and trusts, which Jamieson owned and controlled. Additionally, Jamieson was ordered to forfeit his personal assets, including his million-dollar residence, his million-dollar vacation home, the contents of his investment accounts and other personal property. On October 28, 2003 Judge Katz amended his original order of forfeiture to include \$5,675,075 in substitute assets.

Healthcare Business Owner Sentenced in Fraud Case

On October 28, 2003, in St. Paul, MN, Harry Kwabena Ossei, was sentenced to 12 months in prison, followed by three years supervised release and ordered to pay \$255,608 in restitution. Ossei admitted that beginning in January 1996 and continuing until 2001 he defrauded Medicare of \$255,608 by submitting false and fraudulent documents that represented non-Medicare expenses as legitimate Medicare expenses. Ossei also admitted to willfully filing a false tax return in October 1998. Ossei admitted paying himself approximately \$90,552 from his business which was not reported as income on his tax return. As a result, Ossei understated his tax due and owing by \$29,980.

Former Nursing Home Office Manager Sentenced on Embezzlement and Tax Charges

On October 17, 2003, in Birmingham, AL, Carita Walton Harbin was sentenced to 15 months in prison to be followed by three years supervised release and ordered to pay restitution in the amount of \$159,162. Harbin pleaded guilty to embezzling in excess of \$150,000 from a health care facility and income tax evasion.

For more summaries, visit www.irs.gov and enter Keyword: Fraud.

Where Do You Report Suspected Tax Fraud Activity?

If you suspect tax fraud or know of an abusive return preparer, you should report this activity to your nearest Internal revenue service office. This information can be communicated by phone or in writing to your local IRS office. You can contact the IRS by phone at 1-800-829-0433.